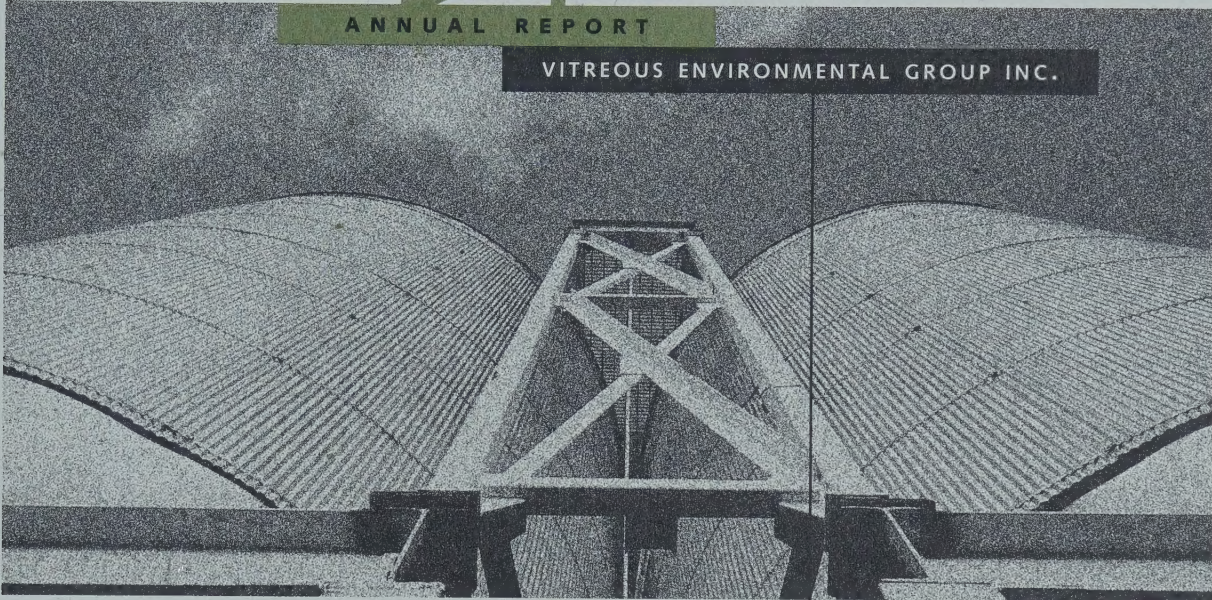


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ANNUAL REPORT

VITREOUS ENVIRONMENTAL GROUP INC.

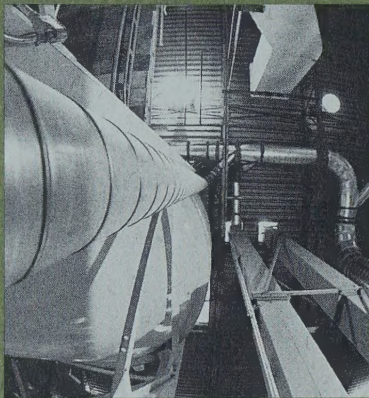


IN 1994, VITREOUS
LAID THE FOUNDATION FOR
ITS FUTURE BY OBTAINING THE
FINANCING AND CONTRACTS TO
BUILD THE FIRST GLASAND™
MANUFACTURING PLANT.



The Honourable Ralph Klein, Premier of Alberta and Patrick Cashion, President and Chief Executive Officer of Vitreous Environmental Group Inc., officially open the new waste glass processing plant in Airdrie, Alberta on February 2nd, 1995. Not only does the plant consume waste glass that would otherwise find its way to a landfill, the crushed glass byproduct has value as a recycled feedstock.

On February 2, 1995 the first GlasSand™ manufacturing facility opened in Airdrie Alberta. Amid the applause of several hundred supporters, suppliers and investors, Alberta's



Premier Ralph Klein cut the ribbon on the \$2.5 million plant. One day later, the system started up and waste glass began to move along the conveyor system feeding the state of the art glass crushing operation. Environmental manufacturing had come of age. The Airdrie plant is the work of Vitreous Environmental Group Inc., a three-year old company with an entrepreneurial management group and board who have taken the company from initial concept through financing, engineering and construction and now into the start up mode. Vitreous owns a technology



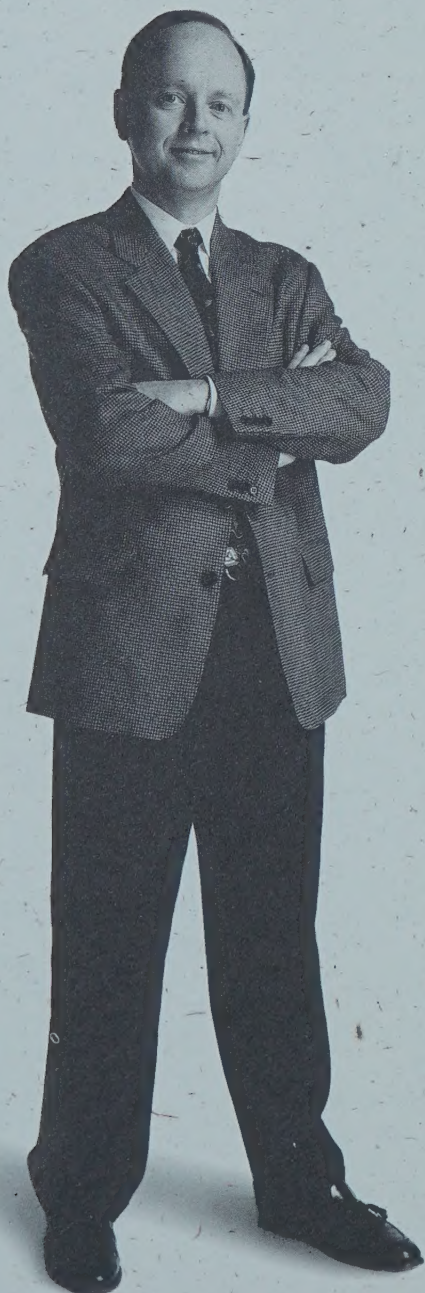
for controlled glass crushing, and has pioneered the development of markets for crushed glass and supplies of waste glass. The output of the process is GlasSand™, a finely crushed glass that can be produced in various particle sizes to meet varying industry specifications. GlasSand™ from the Airdrie plant has been contracted to Owens Corning and Schuller International to manufacture fiber glass, and to Potters Industries to use in reflective road paint. Other applications are also being tested. Other locations for GlasSand™ manufacturing facilities are also being considered. The benefits are twofold: not only does the plant consume waste glass that would otherwise find its way to a landfill, the crushed glass byproduct has value as a recycled feedstock for manufacturers of fiber glass and other glass based products. Vitreous Environmental Group Inc. is a publically traded company listed on the Alberta Stock Exchange and trading under the symbol VOW.

In 1994 your Company achieved a number of significant advancements that effectively moved it from the realm of plans and ideas into the arena of operations and cash flow. The year was characterized by a series of events that led us to establish contracts for waste glass, to proceed through the design, engineering and construction of our first GlasSand™ manufacturing operation and to obtain contracts for GlasSand™ with three of the world's largest users of crushed glass feedstock. In the second quarter of fiscal 1995 we opened our Airdrie plant and began deliveries of GlasSand™ from the plant. For all of you who have watched and worked with Vitreous over the past three years, we have realized the goals we have been striving to achieve. The sequence of events during 1994 was as follows:

- In January 1994 we obtained the first contract with the Alberta Liquor Control Board to take all waste glass from their depot recycling system. This was the important first step in establishing the viability and capacity of our Airdrie plant. This has since been expanded to contracts with the Alberta Beverage Container Corporation and, together with waste glass from blue box and other programs, provide over 50,000 tons of waste glass supply each year.
- In January 1994 we finalized the base contract with Schuller International to supply their Manville fiber glass manufacturing operation with GlasSand™. The contract was signed in March and expanded in December 1994.
- In January 1994 we obtained a letter of intent with Canasphere/Potters Industries for the application of GlasSand™ to the manufacture of glass beads for reflective road paint in their Calgary operation. A purchase order was signed in December for increased volumes to be delivered during 1995-96.
- In May 1994 we finalized the letter of commitment from the Bank of Montreal for financing in excess of \$1.0 million for plant construction and operations.
- In June 1994 we completed basic engineering for the Airdrie plant.
- In July 1994 we obtained a contract with Owens Corning to supply GlasSand™ to their Edmonton Fibreglas Canada operation.
- In July 1994 we finalized \$900,000 in equity financing for the plant construction.
- In August 1994 we completed detailed engineering and commenced construction on the Airdrie plant, with start up scheduled for January. On February 2, 1995 the first GlasSand™ manufacturing operation was officially opened in Airdrie, Alberta by The Honourable Ralph Klein, Premier of Alberta.

Today, Vitreous is delivering contracted volumes of GlasSand™ to two of our three contracted customers with deliveries on the third contract commencing in May.

We are also supplying seven major companies with GlasSand™ to test its application in the abrasives/sandblasting industry. The opportunity to sell more GlasSand™



from the Airdrie plant was presented even before plant construction was completed. However, we are focusing on testing the capacity and efficiency of the plant as the critical first step before making any decisions on expanding the Airdrie operation. The other factor in our expansion decision is source of raw material. We are expanding our network of suppliers within the economic limitation of distance and the cost of transportation.

On the demand side, opportunities to sell GlasSand™ continue to expand. Our contracts with our three core customers in Alberta have continued to grow as these clients use the GlasSand™ in their own manufacturing process. For these customers, GlasSand™ offers economic advantages as a feedstock due to both the quality and the consistency of the product. As well, there are social, environmental and marketing benefits to using recycled feedstock in lieu of virgin material. In every case, these customers represent a highly stable, potentially high volume consumer of our product. Schuller is one of the world's largest producers of fiber glass with sales of over \$1 billion and processing plants located in Canada, the United States and Germany. Owens Corning invented fiber glass and

is today a \$3 billion company with sales, supply manufacturing and research worldwide and joint venture relationships in 27 countries. Potters Industries enjoys a global reputation as well, supplying 60 per cent of the glass beads used in the manufacture of reflective road paint. It is conceivable that, if GlasSand™ is able to provide these companies with economic and environmental benefits in their own manufacturing operations, our future growth may well be driven by the demand from within this network of facilities around the world.

The demand for recycled waste glass from companies like Schuller, Owens Corning and Potters is part of a global phenomenon where manufacturers are being influenced to use an increasing percentage of recycled material as feedstock. The trend is evident in the paper industry, steel and aluminum, wood and glass businesses. While consumers still labour under misconceptions about the cost, quality and availability of recycled products, legislation is pushing industry to improve recycling programs and recover increasing amounts of post-consumer product.

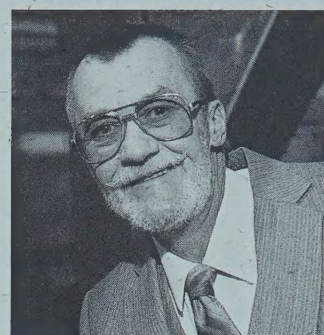
*J. Patrick Cashion,
President and Chief Executive Officer*



Mr. Bruce Smith, Vice-President of Engineering directed the design, engineering and construction of the GlasSand™ manufacturing plant by specialized consulting engineers.



Mr. Gary Sayles, Director of Marketing developed Vitreous' innovative glass procurement strategies and is working on testing the development of new end-use markets.



Mr. Ralph Raw, Plant Manager is a 30-year veteran of the glass industry with responsibilities for Vitreous' stringent quality control procedures as well as efficient plant operations.

This is certainly true of the glass business where, in the United States, industry is being legislated to increase the recycled content of new glass manufacturing. The limiting factor is the inefficiency of recycling programs. Current programs are somewhat effective for beverage bottles where a fee incentive promotes the consumer to recycle and pays for part of the recycling process. However, this represents only a small percentage of the glass used; missing are the millions of tons of glass jars, plate glass, windshields, etc. that still ends up in land fills or other disposal sites. We are one of the first manufacturing companies capable

of taking the quantity and quality of glass offered by recyclers and, as we increase our demand for waste glass it is likely that the supply will also increase.

Looking back, I am extremely pleased with the progress your Company has made in one year. Looking forward, we believe the next twelve months could be equally exciting, as we set out to establish the capacity and efficiency of our first manufacturing facility and continue to explore and expand marketing opportunities.

I want to express my sincere thanks to our management and staff who have devoted hours of effort to our progress to date and maintained their support and enthusiasm through all our challenges. One of our Board of Directors, Jeff Poole resigned this year and I want to extend my appreciation for his substantial contribution to the formation of this Company.

Remaining on the Board are four people who have provided valuable financial, marketing and business expertise over the years. And I want to thank our shareholders, who have continued to support and follow this Company. I look forward to sharing an exciting year ahead with all of you.

On behalf of the Board of Directors,

J. Patrick Cashion
President
February 2, 1995



Activity during fiscal 1994 has focused on the development of the GlasSand™ processing system for the Airdrie operation. This is the first, full scale GlasSand™ operation and all stages of development were carefully pioneered over the design, engineering, procurement and six-month construction phase. At the same time, contracts for raw material and sales contracts for processed GlasSand™ were negotiated and signed. As the plant moves into production in early 1995, all critical stages of development have been completed, clearing the way for Vitreous to test the plant's capacity and to begin identifying potential sites for additional processing operations.

Design, engineering and construction of the plant was provided by specialized consulting engineers under the direction of Vitreous' Vice President of Engineering, Bruce Smith. Vitreous developed the design for the plant taking into consideration the capacity requirements, the most efficient flow of raw materials through the plant, etc. Management toured a number of similar facilities in North America to observe comparative approaches. This is the first commercial GlasSand™ manufacturing

facility to be built on this scale and considerable thought was given to all design details to maximize efficiencies, facilitate quality control and develop the prototype processing system that could be easily duplicated in other locations.

A variety of commercially available equipment, including the patented Vitreous GlassBlaster system as well as a modified commercial crusher, have been combined in a unique and proprietary production line that forms the GlasSand™ pro-

cessing system. The plant production will allow Vitreous to test the efficiency of the system at commercial quantities and make any necessary design adaptations before expanding or adding new plant capacity.

Five stages of quality control have been incorporated into the process stream, allowing Vitreous to sample and test the product as it moves from dirty, broken waste glass to clean, finely processed GlasSand™ that meets the toughest ASTM standards. Quality control, as well as overall plant operations fall under the direction



Left to right: Robert H. Paul, Chairman; R. Darol Hamilton; H. Irvin Thomas; and J. Patrick Cashion.

of Plant Manager Ralph Raw, a 30-year veteran of the glass industry. The quality control lab on the plant site will expose the GlasSand™ to moisture content and other tests that replicate the testing procedures used by Vitreous' clients. The high quality of Vitreous GlasSand™ is one of the distinct advantages of this product in the market for crushed glass feedstock.

Another advantage of the Vitreous process is the ability to use mixed three-coloured glass as a feedstock in the system. Many processes can only accept clear or green glass whereas the Vitreous process is able to use a mixed feedstock containing green, clear and brown glass. The quality control processes which clean the glass and remove contaminants combined with the ability to crush the glass to such a fine consistency are responsible for this feedstock flexibility.

Glass feedstock for the Airdrie operation is sourced from across western Canada. Vitreous has several long term contracts for various volumes and with varying expiry dates which have been developed to match the contracts with endusers of GlasSand™. Glass is supplied by the Alberta Liquor Control Board and the Alberta Beverage Corporation as well as blue box programs, municipal return programs and scrap industrial flat glass from Alberta, Saskatchewan and British Columbia. Vitreous has learned to identify sources of low or negative value waste glass, where it is providing negligible value or in some cases is actually costing money to send to a land fill. Vitreous is able to secure and recycle this glass and divert it to its processing operation which adds value through the state of the art manufacturing process. Vitreous' glass procurement strategies have been developed by Director of Marketing Gary Sayles. The entire Vitreous team has also been involved in negotiations on the three enduser contracts for GlasSand™ that will take production from the Airdrie plant. These clients are among the largest users of crushed glass in North America and include Schuller International, which manufactures the Manville line of fiber glass insulation products and will use GlasSand™ for its process; Owens Corning which will

manufacture fiber glass under the name Fibreglas Canada; and Potters/Cañasphere Industries which will use GlasSand™ to produce glass beads that give the reflective quality to road paints. GlasSand™ from the Airdrie operation is being tested by several users for its application to the abrasives industry. Gary Sayles along with VP Engineering Bruce Smith are also working on opportunities to test the development of new specialty end-use markets for GlasSand™.

Opportunities for expanding production at Airdrie and construction of additional plants have already been considered. Criteria for new plant construction include the development of both end-user contracts as well as sources of waste glass, both in relative close proximity to the plant due to the weight and cost of transporting glass. The focus for 1995 will be to maximize the efficient production of GlasSand™ at Airdrie, continue to test the process and the product with existing and new users and through this process develop additional demand for GlasSand™, both for the Airdrie plant and future plants.



Sources of raw, waste glass include contracts with ALCB, Alberta Beverage Container Corporation and recycling programs in municipalities and industry. Clear, brown or green; bottles, jars or plate glass; all types of glass are delivered to Airdrie. The Vitreous manufacturing process is the first commercial operation in western Canada to use large quantities of waste glass.

REMOVING CONTAMINANTS

The manufacturing process first removes contaminants including metal, paper, cork, foil and pottery. Raw glass is cleaned and sorted as it moves along a conveyor system into the processing plant.

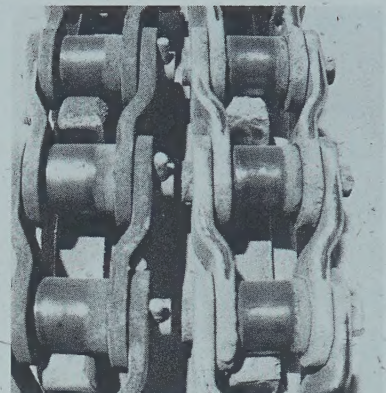
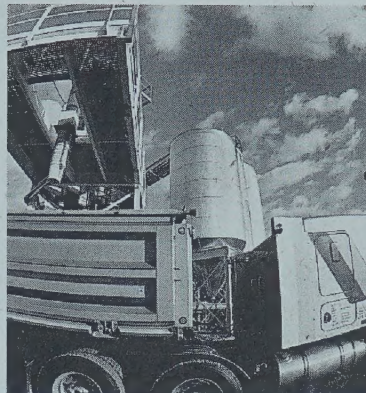
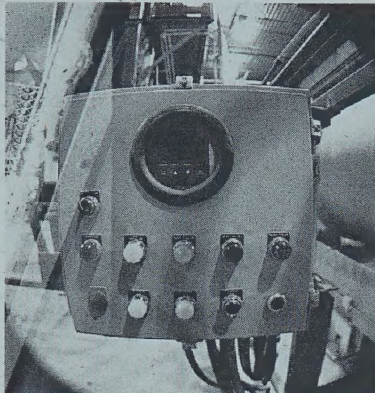
Quality control samples the product at five stages in the process to ensure the standards of quality are being met. The measurements test the cleanliness, moisture content, particle size and other characteristics in a sampling process that replicates the quality control used by many of Vitreous' clients.

CRUSHING

Several stages of crushing break the glass down into particles. One of the key features of the GlasSand™ manufacturing process is the ability to adjust the size of the final particle to meet client specifications.

GlasSand™ is the final crushed glass product. The trademark associated with the product, however, underlines its features which are not shared by other crushed glass byproducts. To be called GlasSand™, the product must meet the rigorous standards for quality set by Vitreous and expected by its clients. Vitreous will protect and ensure these quality standards for GlasSand™ in Airdrie and all future plants.





END PRODUCTS

Contracts with end-users have been signed over the past twelve months and contracted volumes are being revised upward as the endusers have the opportunity to test the product and see its benefits in their own operations. Contracts are with:

SCHULLER

Schuller International is the second largest manufacturer of fiber glass in North America. This contract is to supply GlasSand™ to the Schuller operation in Innisfail, north of Airdrie.



**FIBERGLAS
CANADA INC**

Owens Corning is itself one of the largest manufacturers of glass fiber products in the world with over \$3 billion in sales and operations in 27 countries. Vitreous will send GlasSand™ from Airdrie to the Owens Corning fiber glass plant in Edmonton.



POTTERS INDUSTRIES INC.

Potters Industries Inc. today supplies 60% of the world market for glass spheres used in highway traffic markings. They will be introducing the use of GlasSand™ into the manufacture of glass beads in their processing facility at Calgary, supplied by the Airdrie plant.

Several large users of industrial sandblasting material are taking product from the Airdrie plant to test the commercial application of GlasSand™ as an abrasive in sandblasting applications. Based on the results of these tests, Vitreous expects that GlasSand™ abrasive will become commercially available this year.

The management and Board of Vitreous Environmental Group Inc. is pleased to present the financial statements for the fiscal years ending September 30, 1994 and 1993.

In keeping with its new focus on the construction and operation of its first GlasSand™ processing plant, your Company obtained capital and operating financing from the Bank of Montreal of over \$1 million. In addition, we raised the balance of the equity required to build our first plant at Airdrie, Alberta.

Because detailed engineering of the plant began August 1, 1994 and actual construction of the plant began in September, a modest

amount of expenditures on the plant are reflected on the September 30, 1994 year end balance sheet. Construction has since been completed and the plant went into operation servicing its first customer on January 24, 1995.

As you are aware, Vitreous expended a considerable sum on developing its recyclable glass processing business and technology and to a much smaller extent on development of its water purification technology. While we believe that these expenditures were soundly based, and that future operations will show the profitability of our GlasSand™ business, we also believe that conservatism in accounting is important and accordingly have chosen to write off these development costs for accounting purposes at September 30, 1994.

We also believe that it will be in the best interests of our shareholders to eliminate our accumulated deficit at October 1, 1994 and are seeking shareholder approval for such a

step at the Annual Meeting. The deficit totalled \$2,793,295 at October 1 and, if approved by the shareholders, the stated capital of the common shares would be reduced by this amount. One of the key advantages of this accounting approach is that we will not have to make a charge to income for each of the next five years in order to amortize these costs. Indeed, our balance sheet going into fiscal 1994-1995 will reflect only the cost of the Airdrie plant as well as our monetary assets and liabilities. This will provide a very clean balance sheet for shareholders and analysts to review in future.

BALANCE SHEET

Years ended September 30

1994

1993

Assets

Current assets:

Cash	\$ 391,868	\$ 540,735
Accounts receivable	241,945	63,367
Share subscriptions receivable	-	85,000
Prepaid expenses	10,720	73,205
Inventory	62,925	172,000

707,458 934,307

Capital assets (note 3) 773,775 27,129

Development costs (note 4) - 1,563,678

\$ 1,481,233 \$ 2,525,114

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 476,193	\$ 158,780
Current portion of long-term debt	3,687	-
Notes payable (note 5)	-	56,715

479,880 215,495

Long-term debt (note 6) 93,003 100,000

Shareholders' equity:

Share capital (note 7)	3,701,645	2,324,394
Deficit	(2,793,295)	(114,775)

908,350 2,209,619

Commitments (note 9)

Subsequent events (note 10)

\$ 1,481,233 \$ 2,525,114

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

STATEMENT OF OPERATIONS AND DEFICIT

<i>Years ended September 30</i>	1994	1993
Revenue:		
Net oil and gas sales	\$ -	\$ 31,199
Other revenue	8,579	-
	8,579	31,199
Expenses:		
Office, and administration	275,922	32,112
Public relations	39,441	18,119
Marketing	13,355	17,992
Interest on long-term debt	13,139	-
Depletion, depreciation and amortization	5,287	3,852
Production	-	37,714
Loss on disposal of capital assets	-	3,481
	347,144	113,270
Loss before the following	338,565	82,071
Write-off of deferred development costs (note 4)	2,339,955	-
Write-off of organization costs (note 2)	-	32,704
Net loss	2,678,520	114,775
Deficit, beginning of year	114,775	-
Deficit, end of year	\$ 2,793,295	\$ 114,775
Loss per share	\$ (.08)	\$ -

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended September 30

1994

1993

Cash provided by (used in):

Operations:

Net loss	\$ (2,678,520)	\$ (114,775)
Items not involving cash:		
Depletion, depreciation and amortization	5,287	3,852
Write-off of deferred development costs	2,339,955	-
Loss on disposal of capital assets	-	3,481
Write-off of organization costs	-	32,704
	(333,278)	(74,738)
Changes in operating non-cash working capital	310,395	(230,645)
	(22,883)	(305,383)

Financing:

Notes payable	(56,715)	56,715
Increase (decrease) due to shareholders	-	(41,320)
Net proceeds (repayments) of long-term debt	(3,310)	100,000
Net proceeds from issuance of shares	1,445,251	1,843,486
Share subscriptions received net of cancellation	35,000	-
Amalgamation costs	-	(35,446)
Shares purchased for cancellation	(18,000)	(13,500)
	1,402,226	1,909,935

Investments:

Purchase of capital assets	(770,358)	(36,645)
Proceeds from disposal of capital assets	16,000	17,314
Development costs incurred	(773,852)	(1,074,490)
Acquisition of subsidiary (note 2), net of cash acquired	-	77
	(1,528,210)	(1,093,744)

Increase (decrease) in cash	(148,867)	510,808
Cash, beginning of year	540,735	29,927
Cash, end of year	\$ 391,868	\$ 540,735

See accompanying notes to financial statements.

Years ended September 30, 1994 and 1993

1. Significant accounting policies:

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles. The significant accounting policies of the Company are summarized below:

(a) Inventories:

Inventories are carried at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis.

(b) Capital assets:

Capital assets are carried at cost.

Depreciation is provided on a basis and at rates calculated to depreciate the cost of the assets over their estimated useful lives as set out below:

Assets	Basis	Rate
Automotive	Declining balance	20%
Furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	30%

(c) Development costs:

Development costs include costs associated with the development of markets for crushed glass, glass crushing technology and chlorine water purification technology.

If projects are abandoned or deemed not to be commercially viable, the total of the deferred costs for these projects will be expensed at that time.

The Company recovered certain out of pocket costs incurred in researching markets for the Company's chlorine water purification technology and research-related expenditures on the glass crushing technology. Such recoveries have been deducted from development costs.

(d) Comparative figures:

Certain comparative figures have been reclassified to conform with current year presentation.

2. Business acquisition:

Vitreous Environmental Group Inc. was formed by the amalgamation of Vitreous and Tatrass International Ltd. ("Tatrass") on October 29, 1992 (the "Amalgamation"). The Amalgamation was accounted for as a reverse takeover whereby Vitreous acquired the remaining 61.54% interest in Tatrass. Prior to the Amalgamation, Vitreous had a 38.46% interest in Tatrass as described below:

In 1992 Vitreous acquired 1,875,000 common shares of Tatrass (38.46%) for \$40,250 cash. At October 29, 1992, Vitreous increased its ownership to 100% of Tatrass through the issuance of 3,144,000 common shares of the Company valued at \$9,750. The acquisition was accounted for as a reverse takeover and the results of the operations of Tatrass were consolidated in Vitreous' financial statements since October 29, 1992. The total purchase price of \$50,000 of the above acquisition has been allocated based on fair values as follows:

	Amalgamation at October 29, 1992	Investment in 1992
Net assets acquired, at assigned value:		
Cash	\$ 9,827	\$ 3,779
Petroleum and natural gas properties	23,000	22,622
Organization costs	32,704	19,822
Non-cash working capital deficiency	(15,531)	(5,973)
Total consideration	\$ 50,000	\$ 40,250

	Amalgamation at October 29, 1992	Investment in 1992
Funded by:		
Cash	\$ 40,250	\$ 40,250
Issue of 3,144,000 common shares (note 7)	9,750	—
	\$ 50,000	\$ 40,250

The petroleum and natural gas properties were disposed of in 1993 for a loss of \$3,481 which is included in the statement of operations and deficit. Organization costs were entirely written off during 1993.

3. Capital assets:

	Cost	Accumulated depreciation	Net book value
1994			
Automotive	\$ 8,000	\$ 8,000	\$ —
Furniture and fixtures	3,845	1,306	2,539
Computer equipment	25,751	8,690	17,061
Plant	754,175	—	754,175
	\$ 791,771	\$ 17,996	\$ 773,775
1993			
Automotive	\$ 24,000	\$ 7,542	\$ 16,458
Furniture and fixtures	3,042	412	2,630
Computer equipment	9,460	1,419	8,041
	\$ 36,502	\$ 9,373	\$ 27,129

Certain capital assets were disposed of in 1994 for a gain of \$913 (1993 – loss of \$8,182) which is included in development costs. Depreciation of \$3,338 (1993 – \$8,241) was capitalized to development costs.

4. Development costs:

Development costs are comprised of:

	1994	1993
Marketing rights, development and related costs	\$ 2,018,300	\$ 1,433,506
Salaries and wages	465,213	273,690
Sales of prototype, net of royalties and operating costs	(45,268)	(45,268)
Government assistance	(98,250)	(98,250)
	2,339,995	1,563,678
Write-down of development costs	(2,339,995)	—
Ending balance	\$ —	\$ 1,563,678

During the year, the Company's management concluded that the commercial viability of projects relating to capitalized deferred development costs was not determinable. As a result, the full amount of \$2,339,995 included in development costs has been charged to income in the current year. Included in development costs in 1994 were operating revenues of \$554,076 and related cost of goods sold of \$628,946.

5. Notes payable and related party transactions:

Notes payable at September 30, 1993 were due on demand and bore interest at 10%. Notes payable and long-term debt at September 30, 1993 were both owed to directors of the Company. Interest on notes payable and long-term debt for the year of \$13,139 was included in the statement of operations (in 1993 – \$13,442 was charged to development costs).

During 1994, the Company incurred \$207,000 (1993 – \$209,000) in consulting fees to officers and directors and companies controlled by officers and shareholders. Of this, \$95,000 (1993 – \$11,000) remains unpaid at year end. Subsequent to year end all of the directors exercised stock options and converted the balance owing to 475,000 common shares at \$.20 per share. Included in prepaid expenses at September 30, 1993 is \$13,500 of prepaid consulting fees to a director and shareholder of the Company.

During 1994, the Company also paid rent of \$48,450 to entities controlled by directors or their spouses.

Directors' fees of \$25,000 (1993 – \$ nil) were incurred during the year, all of which are outstanding at year end. Subsequent to year end all of the directors exercised stock options and converted the balances owing to 125,000 common shares at \$.20 per share.

6. Long-term debt:

	1994	1993
10% loan payable to directors of the Company, due October 31, 1994 (see note 5)	\$ –	\$ 100,000
Equipment loan bearing interest at 5.9% repayable in monthly installments of \$377 until August 8, 1998 secured by the related equipment	15,770	–
Western Economic Diversification Loan bearing interest from the first payment date at the Bank of Canada rate plus 3% repayable in eight quarterly installments of \$10,115 starting no later than May 31, 1997	80,920	–
	96,690	100,000
Less current portion	3,687	–
	\$ 93,003	\$ 100,000

Future principal payments on long-term debt are as follows:

1995	\$ 3,687
1996	3,911
1997	24,379
1998	44,483
1999	20,230

7. Share capital:

(a) Authorized:

Vitreous Environmental Group Inc. (after amalgamation):

Unlimited number of common shares without nominal or par value

Vitreous Environmental Group Inc. (prior to amalgamation):

800,000 Class A common voting shares without nominal or par value

200,000 Class B common non-voting shares without nominal or par value

1,000,000 Class C common non-voting shares without nominal or par value

Unlimited number of Class D common non-voting shares without nominal or par value

(b) Issued:

	Number of shares	Amount
Vitreous Environmental Group Inc. (prior to amalgamation):		
Class A shares	800,000	\$ 80
Class B shares	200,000	6,250
Class C shares	1,000,000	500,000
Class D shares	160,000	39,999
	2,160,000	546,329
Share issue costs	—	(16,475)
Balance, September 30, 1992	2,160,000	529,854
Cancelled on amalgamation	(2,160,000)	(529,854)
	—	\$ —

Vitreous Environmental Group Inc. (after-amalgamation):

Common shares:

Issued on Amalgamation:

to Vitreous Environmental Group Inc. shareholders	20,924,398	\$ 529,854
to Tatrass International Ltd. shareholders	3,144,000	9,750
Issued through private placement	7,493,770	1,674,736
Issued through conversion of warrants	423,000	109,000
Issued through exercise of options	104,800	50,000
Purchased for cancellation	(450,000)	(13,500)
Amalgamation expenses	—	(35,446)
Balance, September 30, 1993	31,639,968	2,324,394
Issued through private placement	6,991,237	1,501,149
Issued through exercise of options	487,500	97,500
Purchased for cancellation	(450,000)	(18,000)
Share issue costs	—	(153,398)
Cancellation of shares for subscriptions not received	(188,000)	(50,000)
Balance, September 30, 1994	38,480,705	\$ 3,701,645

Prior to the amalgamation, the Company, on July 22, 1992, had entered into an agreement with two shareholders of Tatrass whereby the Company would have the option to acquire a total of 1,350,000 common shares currently in escrow. Under the option, 450,000 common shares could be acquired annually on December 31, 1992, 1993 and 1994 at \$.03, \$.04 and \$.06 per share, respectively. During the years ending September 30, 1994 and 1993, the Company exercised its options and purchased 450,000 common shares in each year for cash of \$18,000 and \$13,500, respectively, and cancelled the shares (see note 10).

During 1994, the Company issued 1,870,932 warrants to acquire 1,870,932 common shares at \$.30 per share expiring on February 28, 1996. These remain outstanding at year end. At September 30, 1994, there remained 791,286 warrants outstanding from September 30, 1993 to acquire 500,000 common shares at \$0.45 per share expiring on April 30, 1995 and 291,286 common shares at \$0.26 per share expiring on December 31, 1994 (see note 10).

At September 30, 1994, there were 3,082,500 options outstanding to directors, officers and consultants to acquire 287,500 common shares at \$0.30 per share, 2,645,000 common shares at \$0.20 per share, and 150,000 at \$0.40 per share, all of which expire on dates ranging from September 7, 1998 to May 9, 1999 (see note 10).

8. Income taxes:

As at September 30, 1994 the Company has approximately \$1,256,000 of unused tax pools and \$2,390,000 of unutilized non-capital loss carryforwards available to reduce future taxes payable, the tax benefit of which has not been recognized in the financial statements.

9. Commitments:

- (a) Pursuant to a royalty agreement dated March 13, 1992, the Company is committed to royalty payments to the inventor of a glass crushing technology. Required payments are based on the greater of:
 - (i) a minimum annual payment of \$50,000 should the Company elect to retain the use of the technology; or
 - (ii) 4% of first \$2,000,000 of annual sales of equipment with related technology, 5% of next \$3,000,000 of annual sales and 4% of sales exceeding \$5,000,000.

During 1994, the Company made the annual payment of \$50,000.

- (b) The Company is committed to payments under operating leases for building and property to a director and shareholder of the Company through 2004 in the amount of \$718,750. Annual payments are 1995 - \$75,000, 1996 - \$75,000, 1997 - \$75,000, 1998 - \$75,000, 1999 - \$75,000, and thereafter \$343,750.
- (c) During 1994 the Company entered into a long term agreement with a raw materials supplier to purchase \$126,550 of materials in each of 1995 and 1996.
- (d) At year end the Company was in the process of building a manufacturing plant which will utilize their technology. Estimated costs to complete the project are approximately \$1,419,000.

10. Subsequent events:

- (a) Subsequent to the year end certain directors, officers and consultants were granted options to acquire 1,712,675 common shares at \$.20 each. Certain directors and officers of the Company also exercised options to acquire 580,175 common shares at \$.20 each. The proceeds were offset against balances owing to the directors and officers. Options to acquire 585,000 common shares at \$.20 per share and 160,000 common shares at \$.30 per share were forfeited.
- (b) Subsequent to year end, the Company allowed two directors of the Company to exercise an option it held to repurchase 450,000 of the Company's common shares for cash of \$27,000.
- (c) Warrants to purchase 291,286 common shares outstanding at year end expired on December 31, 1994.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Vitreous Environmental Group Inc. as at September 30, 1994 and 1993 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Leat Marwick Howe

Chartered Accountants

Calgary, Canada
January 12, 1995

Board of Directors

J. Patrick Cashion* C.A.
President and Chief Executive
Officer, Calgary, Alberta

Mr. Cashion was the founding principal of Cashion Associates, a well known Calgary management consulting firm. Prior to founding Cashion Associates in 1981, he was a partner in the firm of Collins Barrow, Chartered Accountants. Mr. Cashion has been an advisor to a wide variety of public and private corporations, both in the formative and mature stages of their development. From 1983 to 1990, Mr. Cashion was a member of the Alberta Securities Commission. He has also served in a variety of Board and Executive capacities with voluntary organizations. He became President of Vitreous in 1993.

Robert H. Paul*
Chairman of the Board,
Vancouver, British Columbia

Mr. Paul is currently the President of Edmonds Enterprises Ltd., an investment corporation and Edmonds Ranches Ltd. He is a Director of I-Fax International Ltd. and I-Fax Ltd. (U.K.), both of which are telecommunications companies. He is the former President and Director of Bechtel Canada Limited, and a former Director of Bechtel Corporation and other Bechtel companies.

* Member of Audit Committee

R. Darol Hamilton*
Calgary, Alberta

Mr. Hamilton is the President and founding partner of Hamilton, Hop & Company, a Calgary based company specializing in insurance and financial consulting. In addition, he is a member of the Board and partner of Uniglobe Travel Western Canada Ltd. headquartered in Vancouver.

H. Irvin Thomas, P. Eng.
Vancouver, British Columbia

Mr. Thomas is one of the founding partners of CANA Construction Co. Ltd. and at the time of his retirement in 1984 was President and C.E.O. of the CANA Group of Companies. He is currently President of Irv Thomas Investments Ltd. and has taken an active role in the operating and engineering of the Vitreous system.

Executive Officers

Patrick Cashion, President
Bruce Smith, Vice President,
Engineering

Legal Counsel

Code Hunter Wittmann
Calgary, Alberta

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

KPMG Peat Marwick Thorne
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Symbol: VOW

Notice of Annual General Meeting

The Annual General Meeting of Vitreous Environmental Group Inc. will be held March 30, 1995 at 3:30 pm in the Viking Room of the Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta. All shareholders are encouraged to attend.

The cover of this annual report is printed on stock made of 100% recycled fibre, including 50% post-consumer waste. The text portion has been printed on stock containing 100% de-inked, reclaimed fibre containing a minimum of 15% post-consumer waste. The inks used in the printing process are vegetable-based.



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